

## Message Text

SECRET

PAGE 01 STATE 304118 TOSEC 250059

21

ORIGIN NODS-00

INFO OCT-01 ISO-00 /001 R

666011

DRAFTED BY:E. A. CARY

APPROVED BY:S/S-O:P. JOHNSON

----- 057053

P 300445Z DEC 75 ZFF4

FM SECSTATE WASHDC

TO USDEL SECRETARY PRIORITY

S E C R E T STATE 304118 TOSEC 250059

NODIS

FOLLOWING SECSTATE 304118 SENT ACTION TEHRAN DEC 30; REPEATED  
TO YOU QUOTE

S E C R E T STATE 304118

NODIS

E.O. 11652:GDS

TAGS:ENRG, IR

SUBJECT:BILATERAL OIL AGREEMENT

REF: (A) STATE 291531, (B) STATE 323084, (C) TEHRAN 12465

FOR AMBASSADOR ONLY FROM UNDER SECRETARY ROBINSON

1. PLEASE CONVEY TO MINISTER ANSARY FOLLOWING RESPONSES TO  
HIS COMMENTS IN REF (C):

A. MARKETING ARRANGEMENT UNDER "ALTERNATIVE II" PLAN  
PRESENTED TO YOU IN PREPARATION FOR LONDON MEETING (REF A)  
AND AT LONDON WAS QUOTE SWAP OF NIOC OIL CONTRACTS BY DE-  
SECRET

SECRET

PAGE 02 STATE 304118 TOSEC 250059

FENSE DEPARTMENT TO ITS SUPPLIERS FOR CASH OR REFINED PRO-

DUCTS REQUIRED BY US ARMED FORCES OR U.S. INTERNATIONAL SECURITY PROGRAMS UNQUOTE. NEW MERGED PLAN ("OIL SECURITY AGREEMENT") INVOLVES ESSENTIALLY THE SAME MARKETING ARRANGEMENT, THAT IS, DEFENSE DEPARTMENT WOULD SWAP NIOC CRUDE OIL CONTRACTS TO US REFINERY COMPANIES FOR EITHER REFINED PRODUCTS OR CASH. AS POINTED OUT AT LONDON, CASH SALE OF CRUDE CONTRACTS IS UNAVOIDABLE BECAUSE GREAT MAJORITY OF REFINERY PRODUCTS BOUGHT BY US DEFENSE DEPARTMENT ARE DERIVED FROM US DOMESTIC CRUDE OIL. SWAPS OF CRUDE FOR REFINED PRODUCTS USED BY OVERSEAS US ARMED FORCES ALSO ARE IMPRACTICABLE OR NOT IMMEDIATELY PRACTICABLE IN THOSE CASES WHERE DEFENSE DEPARTMENT HAS LONG-TERM CONTRACTS WITH REFINERS OWNED BY SUCH CRUDE-SUPPLYING OIL COMPANIES AS ARAMCO. CONSEQUENTLY, REGARDLESS OF US LEGAL BASIS FOR DEFENSE DEPARTMENT'S PURCHASE OF NIOC OIL CONTRACTS, DEFENSE DEPARTMENT WOULD HAVE TO CONTINUE ITS REGULAR PURCHASES OF REFINERY PRODUCTS FROM MOST OF ITS REGULAR SUPPLIERS, PAYING SUCH REFINERS WITH EITHER NIOC CRUDE CONTRACTS OR WITH CASH OBTAINED FROM SALE OF NIOC CRUDE CONTRACTS TO ANY INTERESTED US REFINERY COMPANY.

B. AS I SAID IN OUR LONDON DISCUSSION, WE DO NOT BELIEVE THE PROPOSED BILATERAL ARRANGEMENT WOULD HAVE THE EFFECT OF SUBSTANTIALLY DISPLACING IRAN'S "REGULAR" EXPORTS TO THE UNITED STATES, SO LONG AS IRAN'S SELLING PRICES ARE COMPETITIVE AND CONSORTIUM COMPANIES ENJOY 22 CENTS/BARREL DISCOUNT FROM COMPETITIVE BASE PRICES. THIS, OF COURSE, IS JUDGMENT GOVERNMENT OF IRAN WILL HAVE TO MAKE BASED ON MARKET ANALYSIS AND UNILATERAL MEASURES WITHIN ITS AUTHORITY. US GOVERNMENT CANNOT, AS YOU KNOW, REQUIRE US PRIVATE COMPANIES TO BUY OIL FROM ANY PARTICULAR SOURCE, NOR CAN US GOVERNMENT UNDERTAKE COMMITMENTS TO DISCRIMINATE AMONG US COMPANIES IN AN EFFORT TO PRECLUDE EROSION OF REGULAR IRANIAN EXPORT SALES. IN THE EVENT THAT, DESPITE OUR BEST JUDGMENT AND YOUR MEASURES, THE BILATERAL ARRANGEMENT DID APPEAR TO BE CAUSING SUBSTANTIAL EROSION OF IRAN'S REGULAR EXPORTS TO THE US, WE SUGGESTED THAT IRAN MIGHT WISH TO RETAIN AN OPTION TO TERMINATE THE AGREEMENT.

C. AS TO CONGRESSIONAL APPROPRIATION PROCESS, WE HAVE  
SECRET

SECRET

PAGE 03 STATE 304118 TOSEC 250059

IN MIND, SUBJECT TO FULL US GOVERNMENT AGREEMENT, SUBMITTING SHORTLY AFTER CONGRESS RECONVENES JANUARY 19 AN APPROPRIATION BILL TO PERMIT THE USE OF REGULAR DEFENSE DEPARTMENT FUEL PROCUREMENT FUNDS TO ESTABLISH A REVOLVING FUND THROUGH WHICH TO RUN PAYMENTS AND RECEIPTS IN CARRYING OUT BILATERAL ARRANGEMENT WITH IRAN. HEARINGS PRESUMABLY COULD BE CONDUCTED PROMPTLY BY DEFENSE APPROPRIATIONS SUBCOMMITTEES IN BOTH SENATE AND HOUSE AND BILL COULD BE BROUGHT TO FLOOR OF

EACH HOUSE WITHIN A FEW WEEKS. IF PLAN SEEMS TO ASSURE SUBSTANTIAL BENEFITS FOR THE US ECONOMY, MY PERSONAL OPINION IS THAT IT SHOULD WIN COMMITTEE AND GENERAL CONGRESSIONAL APPROVAL. YOU WILL UNDERSTAND, OF COURSE, THAT I CANNOT GUARANTEE THE OUTCOME OF ANY PIECE OF LEGISLATION SUBMITTED BY THE ADMINISTRATION IN THE ENERGY FIELD.

2. PLEASE ASSURE MINISTER ANSARY THAT WE ARE ENDEAVORING TO OBTAIN PROMPT DECISIONS ON REMAINING ISSUES WITHIN USG WHICH HAVE PRECLUDED OUR PRESENTING A COMPLETE PROPOSAL. CHRISTMAS HOLIDAYS AND RELATED TRAVEL HAVE HANDICAPPED THIS EFFORT, AND IT IS UNLIKELY THAT DECISIONS CAN BE REACHED BY DEC. 31.

3. AMBASSADOR MAY WISH TO COMMENT PERSONALLY ON ANSARY'S REFERENCE IN PARA 3 REF C TO FINANCIAL CONSTRAINTS IMPOSED BY DECLINE IN IRAN'S OIL EXPORTS. AS EMBASSY'S RECENT REPORTING AND CIA ANALYSIS SHOW, GENERALLY DEPRESSED DEMAND FOR HEAVY CRUDE HAS BEEN COMPOUNDED BY PRICE SHAVING BY IRAN'S COMPETITORS. WHILE ANSARY AND OTHER GOI OFFICIALS LIKE TO FOCUS DISCUSSION OF PROBLEM ON SHORTFALLS IN CONSORTIUM COMPANIES' LIFTINGS, EVEN GREATER PROPORTIONATE SHORTFALLS SEEM TO BE OCCURRING IN LIFTINGS BY NIOC'S OTHER CUSTOMERS. INDUSTRY SOURCES CONTEND THAT IRAN MUST FACE UP TO FACT THAT ITS PRICES ARE OUT OF LINE. IF SO, PRICE REDUCTIONS WILL BE NECESSARY TO RESTORE LIFTINGS TO EVEN THE 5 MILLION B/D BASE FROM WHICH THE SHAH ORIGINALLY SOUGHT TO GAIN INCREASED EXPORTS TO US THROUGH BILATERAL DEAL. RECENT SWITCHES AWAY FROM IRAN SUGGEST THAT TODAY'S IRANIAN SELLING PRICES ARE NOT THE "COMPETITIVE" FOB PRICES WHICH WOULD HAVE TO BE THE ESTABLISHED BASES OF ANY BILATERAL AGREEMENT. ROBINSON UNQUOTE ROBINSON

SECRET

NNN

## Message Attributes

**Automatic Decaptioning:** Z  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** AGREEMENT DRAFT, PETROLEUM, CAT-B, NEGOTIATIONS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 30 DEC 1975  
**Decaption Date:** 28 MAY 2004  
**Decaption Note:** 25 YEAR REVIEW  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** johnsorg  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975STATE304118  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** E: A. CARY  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Film Number:** n/a  
**From:** STATE  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 2  
**Legacy Key:** link1975/newtext/t1975129/aaaaaial.tel  
**Line Count:** 146  
**Locator:** TEXT ON-LINE  
**Office:** ORIGIN NODS  
**Original Classification:** SECRET  
**Original Handling Restrictions:** NODIS  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** SECRET  
**Previous Handling Restrictions:** NODIS  
**Reference:** 75 STATE 291531, 75 STATE 323084, 75 TEHRAN 12465  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** johnsorg  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 25 JUN 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <25 JUN 2003 by ElyME>; APPROVED <06 NOV 2003 by johnsorg>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
06 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** LOCK1  
**Status:** NATIVE  
**Subject:** BILATERAL OIL AGREEMENT  
**TAGS:** ENRG, IR, US, (ANSARY, HUSHANG)  
**To:** TEHRAN  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006